

The Catholic University of America and Affiliates

**Consolidated Financial Statements
For the Years Ended April 30, 2016 and 2015
and Report Thereon**

The Catholic University of America and Affiliates
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Independent Auditor's Report

To the Board of Trustees
The Catholic University of America

We have audited the accompanying consolidated financial statements of The Catholic University of America and its affiliates (the "University"), which comprise the consolidated statements of financial position as of April 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Catholic University of America and its affiliates at April 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information for the year ended April 30, 2016 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual affiliates and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, change in net assets and cash flows of the individual affiliates.

Ricardo Hernandez Lopez SLP

September 14, 2016

The Catholic University of America and Affiliates
Consolidated Statements of Financial Position
April 30, 2016 and 2015

<i>(in thousands)</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 26,194	\$ 35,600
Accounts receivable:		
Student fees and other, net of allowance for doubtful accounts of \$1,236 and \$785, respectively	9,762	8,872
U.S. government and other agencies, net of allowance for doubtful accounts of \$362 and \$362, respectively	5,625	3,971
Student loans receivable, net of allowance for doubtful accounts of \$1,185 and \$1,133, respectively	7,574	7,305
Contributions receivable, net of allowance for doubtful accounts of \$2,004 and \$1,149, respectively	22,148	10,430
Investments	366,988	373,640
Deposits with bond trustee	10	1,137
Deferred charges and other assets	5,761	5,652
Property and equipment, net	189,261	187,986
Interest in perpetual trusts	2,273	2,465
Total assets	<u>\$ 635,596</u>	<u>\$ 637,058</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 25,532	\$ 27,765
Deferred revenues, student deposits and other liabilities	9,029	6,614
Refundable advances from the U.S. government	6,886	7,226
Split-interest agreements	1,212	1,337
Asset retirement obligations	8,405	8,012
Indebtedness	94,204	97,835
Total liabilities	<u>145,268</u>	<u>148,789</u>
Net assets:		
Unrestricted		
Undesignated and internally designated	109,000	112,487
Designated funds functioning as endowment	73,305	75,107
Farone Foundation	31,666	30,598
Net investment in property and equipment	86,321	84,793
	<u>300,292</u>	<u>302,985</u>
Temporarily restricted		
Split interest agreements	10,285	10,191
CUA Foundation	47	8
Property and equipment	8,631	6,724
Department gifts and scholarships	76,069	75,187
	<u>95,032</u>	<u>92,110</u>
Permanently restricted		
Student loans	2,446	2,370
Endowment	89,382	87,436
Split interest agreements	3,176	3,368
	<u>95,004</u>	<u>93,174</u>
Total net assets	<u>490,328</u>	<u>488,269</u>
Total liabilities and net assets	<u>\$ 635,596</u>	<u>\$ 637,058</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Catholic University of America and Affiliates
Consolidated Statement of Activities
Year Ended April 30, 2016

<i>(in thousands)</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues and support:				
Student tuition and fees, net	\$ 130,555	\$ -	\$ -	\$ 130,555
Federal and private grants and contracts	25,385	-	-	25,385
Contributions	13,301	15,755	-	29,056
Investment return designated for current operations	7,324	3,152	-	10,476
Sales and services of departments	1,391	-	-	1,391
Sales and services of auxiliary enterprises	32,571	-	-	32,571
Net assets released from restrictions	8,362	(8,362)	-	-
Other operating revenues	2,899	-	-	2,899
Total operating revenues and support	<u>221,788</u>	<u>10,545</u>	<u>-</u>	<u>232,333</u>
Operating expenses:				
Educational and general:				
Instruction and departmental research	97,816	-	-	97,816
Sponsored research	18,734	-	-	18,734
Public service	2,622	-	-	2,622
Libraries	12,260	-	-	12,260
Student services	26,143	-	-	26,143
Institutional support	34,142	-	-	34,142
Total educational and general expenses	191,717	-	-	191,717
Auxiliary enterprises	29,581	-	-	29,581
Total operating expenses	<u>221,298</u>	<u>-</u>	<u>-</u>	<u>221,298</u>
Change in net assets from operations	<u>490</u>	<u>10,545</u>	<u>-</u>	<u>11,035</u>
Nonoperating activities:				
Contributions	502	3,829	791	5,122
Investment return in excess of amounts designated for current operations	(1,910)	(11,207)	31	(13,086)
Changes in the value of split-interest agreements	1	155	(192)	(36)
Required net asset transfers	(800)	(400)	1,200	-
Loss on sale of property	(360)	-	-	(360)
Loss on extinguishment of debt	(952)	-	-	(952)
Other nonoperating gains	336	-	-	336
Change in net assets from nonoperating activities	<u>(3,183)</u>	<u>(7,623)</u>	<u>1,830</u>	<u>(8,976)</u>
Change in net assets	<u>(2,693)</u>	<u>2,922</u>	<u>1,830</u>	<u>2,059</u>
Net assets at beginning of year	<u>302,985</u>	<u>92,110</u>	<u>93,174</u>	<u>488,269</u>
Net assets at end of year	<u>\$ 300,292</u>	<u>\$ 95,032</u>	<u>\$ 95,004</u>	<u>\$ 490,328</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Catholic University of America and Affiliates
Consolidated Statement of Activities
Year Ended April 30, 2015

<i>(in thousands)</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues and support:				
Student tuition and fees, net	\$ 133,151	\$ -	\$ -	\$ 133,151
Federal and private grants and contracts	26,567	-	-	26,567
Contributions	13,273	6,159	-	19,432
Investment return designated for current operations	7,484	3,286	-	10,770
Sales and services of departments	1,445	-	-	1,445
Sales and services of auxiliary enterprises	32,042	-	-	32,042
Net assets released from restrictions	5,077	(5,077)	-	-
Other operating revenues	3,292	-	-	3,292
Total operating revenues and support	<u>222,331</u>	<u>4,368</u>	<u>-</u>	<u>226,699</u>
Operating expenses:				
Educational and general:				
Instruction and departmental research	99,062	-	-	99,062
Sponsored research	17,679	-	-	17,679
Public service	2,460	-	-	2,460
Libraries	12,908	-	-	12,908
Student services	25,530	-	-	25,530
Institutional support	34,038	-	-	34,038
Total educational and general expenses	<u>191,677</u>	<u>-</u>	<u>-</u>	<u>191,677</u>
Auxiliary enterprises	28,319	-	-	28,319
Total operating expenses	<u>219,996</u>	<u>-</u>	<u>-</u>	<u>219,996</u>
Change in net assets from operations	<u>2,335</u>	<u>4,368</u>	<u>-</u>	<u>6,703</u>
Nonoperating activities:				
Contributions	73	2,025	1,785	3,883
Investment return in excess of amounts designated for current operations	14,787	6,334	11	21,132
Changes in the value of split-interest agreements	-	313	56	369
Required net asset transfers	(26)	(32)	58	-
Loss on sale of property	(971)	-	-	(971)
Other nonoperating gains	1,232	-	-	1,232
Change in net assets from nonoperating activities	<u>15,095</u>	<u>8,640</u>	<u>1,910</u>	<u>25,645</u>
Change in net assets	<u>17,430</u>	<u>13,008</u>	<u>1,910</u>	<u>32,348</u>
Net assets at beginning of year	<u>285,555</u>	<u>79,102</u>	<u>91,264</u>	<u>455,921</u>
Net assets at end of year	<u>\$ 302,985</u>	<u>\$ 92,110</u>	<u>\$ 93,174</u>	<u>\$ 488,269</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Catholic University of America and Affiliates
Consolidated Statements of Cash Flows
Years ended April 30, 2016 and 2015

<i>(in thousands)</i>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,059	\$ 32,348
Adjustments to reconcile increase in net assets to cash and cash equivalents provided by operating activities:		
Depreciation and amortization	11,827	11,257
Accretion expense	393	372
Amortization of debt issuance costs	276	94
Amortization of bond premium	(478)	(164)
Provision for bad debt expense	1,356	(675)
Net realized and unrealized loss (gain) on investments	5,267	(29,520)
Loss on disposal of property	365	1,041
Loss on extinguishment of debt	952	-
Receipt of contributed securities	(1,496)	(1,468)
Proceeds from sale of donated securities	1,454	856
(Increase) decrease in assets:		
Accounts receivable	(2,995)	(2,037)
Deferred charges and other assets	(109)	(699)
Notes receivable	(320)	(424)
Contributions receivable	(12,572)	(1,130)
Interest in perpetual trusts	192	(56)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,214)	1,238
Deferred revenues and student deposits	2,415	(583)
Refundable advances	(340)	(175)
Split-interest agreements	(126)	(212)
Asset retirement obligations	-	(64)
Contributions restricted for long-term investment	(713)	(1,810)
Net cash provided by operating activities	<u>5,193</u>	<u>8,189</u>
Cash flows from investing activities:		
Purchases of investments	(50,805)	(131,321)
Proceeds from sales and maturities of investments	52,190	139,127
Purchases of property and equipment	(13,486)	(19,368)
Sales of investments within deposits held by bond trustee	1,128	(1)
Net cash used in investing activities	<u>(10,973)</u>	<u>(11,563)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	713	1,810
Proceeds from sale of donated securities restricted for endowment	42	613
Proceeds from issuance of bonds payable	35,065	-
Principal payments of notes and bonds payable and line of credit	(37,976)	(3,185)
Loss on extinguishment of debt	(585)	-
Payment for debt issuance costs	(885)	-
Net cash used in financing activities	<u>(3,626)</u>	<u>(762)</u>
Net decrease in cash and cash equivalents	(9,406)	(4,136)
Cash and cash equivalents at beginning of year	35,600	39,736
Cash and cash equivalents at end of year	<u>\$ 26,194</u>	<u>\$ 35,600</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 4,085</u>	<u>\$ 4,772</u>
Cash paid during the year for taxes	<u>\$ 72</u>	<u>\$ 174</u>
Contributed securities	<u>\$ 1,496</u>	<u>\$ 1,468</u>
Non-cash transactions:		
Accrued expenses for purchases of property and equipment	<u>\$ 1,107</u>	<u>\$ 1,126</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Catholic University of America and Affiliates

Notes to Consolidated Financial Statements

Years ended April 30, 2016 and 2015

1. Organization

The Catholic University of America (“the University”) is an independent institution of higher education located in Washington, D.C., offering programs of study leading to bachelor’s, master’s, and doctoral degrees in the liberal arts and sciences, religious studies, and several professional areas including engineering, architecture, social service, nursing, music, law and Canon Law. Its 176-acre campus is located in northeast Washington, approximately two miles from the United States Capitol. The University is sponsored by the Roman Catholic Bishops of the United States.

The creation of the University as a national institute of learning was proposed by the Catholic Bishops of the United States meeting at the Second Plenary Council in Baltimore in 1866; the University was formally established as a center for graduate studies in theology by the Third Plenary Council in Baltimore in 1884. On April 19, 1887, the University was formally incorporated under Chapter 18 of the Revised Statutes of the United States relating to the District of Columbia. In 1964, the University elected to avail itself of the nonprofit corporation provisions of the District of Columbia Code by filing a Statement of Election to Accept with the appropriate authorities of the District of Columbia. The University is vested with authority from the Holy See to grant the ecclesiastical degrees of Bachelor, Licentiate and Doctorate in Philosophy and Sacred Theology and Licentiate and Doctoral degrees in Canon Law.

There are approximately 400 full-time faculty members, along with approximately 3,500 undergraduate and 3,000 graduate students.

The consolidated financial statements include the accounts of the University’s separately incorporated affiliates, the Albert E. and Angela T. Farone Foundation, Inc. (“Farone Foundation”) and the Catholic University of America Foundation (“CUA Foundation”). The Farone Foundation’s Board of Directors is comprised of five members, four of whom are officers or staff of the University and one independent member. The Farone Foundation was originally established in 1965 and reincorporated in 1981. In 2009, the Farone Foundation Board of Directors affirmed that the proceeds were to be used towards the charitable, scientific, educational, literary and/or religious purposes of the University and to provide scholarships to certain students attending the University. The CUA Foundation’s Board of Directors is comprised of three officers of the University. The CUA Foundation was originally established in 1980 to operate exclusively to support the University and its members.

2. Summary of Significant Accounting Policies

Accrual Basis

The consolidated financial statements have been prepared using the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with US generally accepted accounting principles (US GAAP) in the United States requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities; (2) disclosure of contingent assets and liabilities at the date of the financial statements; and (3) the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the asset retirement obligations and non-traditional investments. Actual results could differ materially, in the near term, from the amounts reported.

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The Catholic University of America and Affiliates

Notes to Consolidated Financial Statements

Years ended April 30, 2016 and 2015

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted: Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted: Net assets subject to donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the University pursuant to those stipulations.

Permanently Restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the University.

Revenues from sources other than contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Unless otherwise noted, restricted assets are held primarily for student aid and departmental support. Contributions are reported as increases in the appropriate category of net assets. If a restriction is fulfilled in the same time period in which the contribution is received, the amount of the support is reported as unrestricted. Expenses are reported as decreases in unrestricted net assets. Investment income is reported as increases or decreases in unrestricted net assets unless its use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors. Contributions that are permanently restricted or restricted for capital purposes are recorded in non-operating activities.

Contributed services are only recognized for those services that would need to be purchased by the University if not otherwise provided, require specialized skills and are provided by individuals with those skills. For the year ended April 30, 2016 and 2015, the University recognized \$673,000 and \$87,000 of contributed services for legal work and skilled work associated with a national contest involving the University's architecture students.

Income Taxes

The University and its affiliates are recognized as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code ("IRC"), except on activities unrelated to their exempt purposes. No provision for income taxes is required for the years ended April 30, 2016 and 2015, as the University had no net unrelated business income. In consideration of accounting standards related to income taxes, the University concluded there were no open positions that result in material unrecognized tax benefits or which may have any effect on its tax-exempt status as of April 30, 2016 and 2015.

Consolidation

All significant intercompany accounts and transactions have been eliminated in consolidation.

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

Cash Equivalents

All highly liquid investments purchased with a maturity at date of purchase of three months or less are considered to be cash equivalents. Cash equivalents include money market funds of \$250,000 and \$244,000 and short-term securities of \$3,982,000 and \$2,905,000 at April 30, 2016 and 2015, respectively.

Notes and Student Loans Receivable

The University records an allowance for doubtful accounts (credit losses) for the following notes and student loans receivables (in thousands):

	2016		2015	
	Receivable Balance	Allowance	Receivable Balance	Allowance
Perkins loans	\$ 5,501	\$ 605	\$ 5,324	\$ 639
Other student loans and other receivables	3,258	580	3,114	494
Notes and student loans receivable	\$ 8,759	\$ 1,185	\$ 8,438	\$ 1,133

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio including reviewing economic risks associated with each loan category. The University's Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the Federal Government in certain non-repayment situations. In these situations the Federal portion of the loan balance is guaranteed. Management believes that the allowance for credit losses at April 30, 2016 is adequate to absorb credit losses inherent in the portfolio as of that date.

Investments

Purchased investments are stated at fair value. Purchases and sales are recorded on the trade date. All cash and money market funds held by investment managers are reported as investments. Investments acquired by gifts or bequests are stated at market or appraised value at the date of receipt. Investments may include some cash and cash equivalents held by investment managers for specific purposes.

Included in Investments are investment properties carried at fair value. For the years ended April 30, 2016 and 2015, these properties included the University's South Campus property. During fiscal year 2008, the University entered into a transfer agreement with an unrelated third-party to develop the University's South Campus for sale and long-term ground lease. On October 2011 the first phase of the closing on that property occurred. The second phase of the closing occurred on November 2014.

Property and Equipment

Property and equipment are recorded at cost or fair value if acquired by gift. Certain costs associated with the financing of the assets are deferred and amortized over the term of the financing in a method that approximates the interest rate method. Repairs and maintenance costs occurring in the normal course of business that do not add to the useful life of the underlying asset are expensed as incurred.

Depreciation is computed by the straight-line method using the half-year convention over the estimated useful lives of the assets. The estimated useful lives are: land and building improvements, 20 years; buildings, generally 40 years; leasehold improvements, 10 years; furniture, equipment, computer systems, and library books, 5 years.

Collections

The University has elected not to capitalize the cost or value of its collection of works of art, historical treasures, and similar assets. There were no deaccessions during the year.

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The Catholic University of America and Affiliates

Notes to Consolidated Financial Statements

Years ended April 30, 2016 and 2015

Student Tuition and Fees

Student tuition and fee revenues are recognized as revenue in the term in which they are substantially earned. Tuition and fees relating to future terms are deferred and recognized when earned.

Refundable Advances from the U.S. Government

Funds provided by the United States Government under the Federal Perkins Loan and the Nursing Student Loan Programs are loaned to qualified students and may be reloaned after collections. Such funds are ultimately refundable to the U.S. Government.

Functional Expenses

Costs related to the operation and maintenance of physical plant, including depreciation of property and equipment and interest expense, are allocated among the functional expenses based upon square footage. Institutional support is considered a supporting service. All other expense functions are considered program expenses.

Fundraising

Fundraising expenses totaling \$5,189,000 and \$5,693,000 are included in institutional support for the years ended April 30, 2016 and 2015, respectively.

Fair Value of Financial Instruments

Fair value accounting standards establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows. All fair value amounts and disclosures are classified according to the following framework:

Level 1: Fair value is based upon unadjusted, quoted prices for identical assets or liabilities in active, accessible markets.

Level 2: Fair value is based upon either quoted prices for identical assets in an inactive market or similar items in active/inactive markets.

Level 3: Fair value is based upon other unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

In general, for Level 2 and Level 3 investments, the University utilizes the investment manager of the asset to provide a valuation estimate based on techniques discussed later and processes which have been reviewed by management for propriety and consistency with consideration given to asset type and investment strategy. Management makes best estimates based on the information available. The following estimates and assumptions were used to determine the fair value of each class of financial instruments. There were no changes in the fair value methodology, levels, or classification of investments during the year ended April 30, 2016.

Financial Instruments Recorded at Amount Other Than Fair Value

The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable, accrued expenses, and deposits approximates fair value because of the short-term maturity of these items.

The carrying value of the University's student loans receivable approximates fair value due to the fact that most of these receivables are guaranteed by the US government. For the loans receivable not guaranteed by the US government, the University calculated the fair value based upon credit risk and the expected value of future cash flows. The carrying value on those loans also approximates fair value.

Fair market value for fixed-rate debt maturities, the University's Series 2007, Series 2010, and Series 2015 tax-exempt bonds, was determined by a third-party service provider using a relative price approach, by discounting the future cash flows (principal and interest payments) at the Market Yield to maturity, and at the Market Yield to each call date (assuming the bonds are called on such date). The lowest of these

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

values is the fair market value of the bond. The Market Yield is determined by adding a market spread (estimated based on comparable securities trading in the marketplace) to the underlying index (MMD AAA/Aaa scale for tax-exempt debt) with the same approximate maturity as the debt maturity. The fair value of the University's notes payable approximates carrying value.

The carrying value and fair value of the University's financial instruments not required to be recorded at fair value as of April 30, 2016 and 2015 are (in thousands):

	Level	2016		2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Student loans receivable	2	\$ 7,574	\$ 7,312	\$ 7,305	\$ 6,988
Indebtedness:					
DC Revenue Bonds Series 2015	2	\$ 34,965	\$ 34,965	\$ -	\$ -
DC Revenue Bonds Series 2010	2	30,276	31,482	31,358	32,762
DC Revenue Bonds Series 2007	2	29,307	29,475	64,625	65,026
Department of Education notes	2	1,550	1,550	1,852	1,852
Total fair value of indebtedness		\$ 96,098	\$ 97,472	\$ 97,835	\$ 99,640

Financial Instruments Measured at Fair Value on a Recurring Basis

The University determines the fair value of its deposits with bond trustees and investments in publicly traded securities and foreign currency by quoted market prices from active markets.

The fair value of investments in equity securities is based on available closing prices in an active market. The fair value of investments in debt securities is based upon the price of similar issues in an active market. The fair value of investments in limited partnerships and private equity, venture capital, natural resource and hedge funds is determined by using the University's percentage of interest in each of the investments and the estimated fair value. The general partner determines the estimated fair value of a partnership based upon the fair value of the partnership's investments and discloses that value in their annual financial statements.

The valuation process for these investments is subject to review and oversight by management. In connection with this process, management reviews the details of the information obtained from the investment company and considers: i) the measurement date, ii) the basis of accounting and iii) other information obtained during the year through investment monitoring procedures. The University may adjust the obtained fair value for outside inputs such as the cash activity since the date of the annual financial statements, agreement restrictions, secondary market considerations and any liquidity constraints.

The fair value of the University real estate is calculated based on most recent rates from negotiations with buyers and development partners. Real estate assets are included in level 3 as significant unobservable inputs and management's judgment is used in the valuation process.

Fair value measurement accounting guidance requires for all level 3 fair value measurements the disclosure of quantitative information about significant unobservable inputs used. An exception to providing additional quantitative measures is allowed when the University is using unadjusted third party pricing and net asset valuation ("NAV"), assuming that additional quantitative information is provided with regard to the University's valuation process to obtain comfort with the third party prices provided. A discussion of the process is described below with the other required NAV disclosures and therefore the University intends to adhere to this exception.

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

Investments are managed by a diverse group of investment managers. Managers may utilize hedging strategies or invest in financial instruments with off-balance sheet risk. Management has estimated that the risk associated with derivatives is not material to the University as of April 30, 2016 and 2015, and therefore has not been accounted for in the financial statements.

\$32,150,000 and \$31,350,000 of the University's real estate investment fair value is not based upon NAV as of April 30, 2016 and 2015, respectively. Quantitative information about Level 3 fair value measurements not based upon NAV are as follows for the years ended April 30, 2016 and 2015:

<i>(in thousands)</i>			
	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Effect</u>
Real Estate - land parcels under lease agreements	Present value of forecasted cash flows of rental payments and property reversion to be received under the lease term	Change in annual base rent	\$3,760 - \$9,375

Changes in any of the significant inputs presented in the table above may result in a significant change in the fair value measurements of the asset.

Financial Instruments Measured at Fair Value on a Non-Recurring Basis

The University determines the fair value of its contributions receivable on the date of receipt and split interest agreement asset and liabilities through an evaluation of what price could be obtained to sell those assets or transfer those liabilities. Contributions receivable recorded prior to May 1, 2008 were discounted to the net present value of the future cash flows based upon a risk-free rate. In accordance with fair value accounting standards, the University has determined that those assets and liabilities would be transferred at pricing similar to borrowing rates available to the University. Therefore, the University has discounted contributions receivable and split interest agreement assets and liabilities received during the years ended April 30, 2016 and 2015 at its approximate borrowing rates. For fiscal year 2016, these rates vary between 2.8% and 3.8% depending upon when the pledge began, the time period in which the asset is expected to be received or the liability is expected to be paid.

The University determines the fair value of its asset retirement obligations through an evaluation of what price could be obtained to sell the related assets or transfer those liabilities. Asset retirement obligations recorded prior to May 1, 2010 were discounted to the net present value of the future cash flows based upon a risk-free rate. In accordance with fair value accounting standards, the University has determined that any new asset retirement obligations incurred would be transferred at pricing similar to borrowing rates available to the University.

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

The following items are recorded at fair value as of April 30, 2016 (in thousands):

Description	Level 1	Level 2	Level 3	Total
Recurring Measurement:				
Investments:				
Money market funds and temporary investments	\$ 4,424	\$ 1,417	\$ -	\$ 5,841
Equity securities				
Domestic	26,450	-	-	26,450
International	53,052	-	-	53,052
Equity mutual funds	35,577	22,293	-	57,870
Equity commingled fund of funds	-	12,447	-	12,447
Debt securities				
Government	-	5,625	-	5,625
Corporate	-	9,085	-	9,085
Securitized	-	23	-	23
Other	-	29	-	29
Fixed income mutual funds	1,860	23,176	-	25,036
Fixed income commingled fund of funds	-	10,987	-	10,987
Private equity and limited partnerships:				
Venture capital investments	-	-	4,557	4,557
Corporate finance	-	-	18,533	18,533
Real estate	-	-	7,076	7,076
Natural resources	-	-	2,438	2,438
Hedge funds:				
Domestic equity	-	23,847	-	23,847
Emerging equity	-	3,990	-	3,990
Global equity	-	-	12,284	12,284
Commodities	-	3,880	-	3,880
Relative Value	-	-	25,114	25,114
Diversifying fund	-	-	14,757	14,757
Natural resources	-	11,865	-	11,865
Real estate	52	-	32,150	32,202
Total investments	\$ 121,415	\$ 128,664	\$ 116,909	\$ 366,988
Cash and cash equivalents:				
Cash held in foreign currency	\$ 23	\$ -	\$ -	\$ 23
Deposits with bond trustee	\$ 10	\$ -	\$ -	\$ 10
Interest in perpetual trust	\$ -	\$ -	\$ 2,273	\$ 2,273
Non-Recurring Measurement:				
Assets:				
Contributions receivable	\$ -	\$ -	\$ 22,148	\$ 22,148
Liabilities:				
Split interest agreement liabilities	\$ -	\$ -	\$ 1,212	\$ 1,212
Asset retirement obligations	\$ -	\$ -	\$ 8,405	\$ 8,405

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

The following items are recorded at fair value as of April 30, 2015 (in thousands):

Description	Level 1	Level 2	Level 3	Total
Recurring Measurement:				
Investments:				
Money market funds and temporary investments	\$ 6,931	\$ 2,601	\$ -	\$ 9,532
Equity securities				
Domestic	29,454	-	-	29,454
International	43,697	-	-	43,697
Equity mutual funds	7,241	52,264	-	59,505
Equity commingled fund of funds	-	6,627	-	6,627
Debt securities				
Government	-	5,562	-	5,562
Corporate	-	10,116	-	10,116
Securitized	-	23	-	23
Other	-	40	-	40
Fixed income mutual funds	1,853	22,648	-	24,501
Fixed income commingled fund of funds	-	10,431	-	10,431
Private equity and limited partnerships:				
Venture capital investments	-	-	5,277	5,277
Corporate finance	-	-	19,874	19,874
Real estate	-	-	4,588	4,588
Natural resources	-	-	2,312	2,312
Hedge funds:				
Domestic equity	-	28,974	-	28,974
Emerging equity	-	8,322	-	8,322
Global equity	-	-	17,131	17,131
Commodities	-	4,650	-	4,650
Relative Value	-	-	26,294	26,294
Diversifying fund	-	-	14,389	14,389
Natural resources	-	10,938	-	10,938
Real estate	53	-	31,350	31,403
Total investments	<u>\$ 89,229</u>	<u>\$ 163,196</u>	<u>\$ 121,215</u>	<u>\$ 373,640</u>
Cash and cash equivalents:				
Cash held in foreign currency	\$ 15	\$ -	\$ -	\$ 15
Deposits with bond trustee	\$ 1,137	\$ -	\$ -	\$ 1,137
Interest in perpetual trust	\$ -	\$ -	\$ 2,465	\$ 2,465
Non-Recurring Measurement:				
Assets:				
Contributions receivable	\$ -	\$ -	\$ 10,430	\$ 10,430
Liabilities:				
Split interest agreement liabilities	\$ -	\$ -	\$ 1,337	\$ 1,337
Asset retirement obligations	\$ -	\$ -	\$ 8,012	\$ 8,012

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

The activity for the Level 3 investments is as follows for the year ended April 30, 2016 (in thousands):

	Beginning Balance at May 1, 2015	Total Gain	Purchases	Sales	Transfers In/Out Of Level	Ending Balance at April 30, 2016	Change in Unrealized Gain/(Loss) For Postions Still held
Level 3 Assets:							
Venture capital investments	\$ 5,277	\$ 32	\$ -	\$ (752)	\$ -	\$ 4,557	\$ (592)
Other Private Equity	26,774	1,757	3,668	(4,152)	-	28,047	478
Hedge Funds	57,814	(659)	-	(5,000)	-	52,155	(965)
Real estate	31,350	800	-	-	-	32,150	800
Interest in perpetual trust	2,465	(192)	-	-	-	2,273	(192)
Total	\$ 123,680	\$ 1,738	\$ 3,668	\$ (9,904)	\$ -	\$ 119,182	\$ (471)

The activity for the Level 3 investments is as follows for the year ended April 30, 2015 (in thousands):

	Beginning Balance at May 1, 2014	Total Gain	Purchases	Sales	Transfers In/Out Of Level	Ending Balance at April 30, 2015	Change in Unrealized Gain/(Loss) For Postions Still held
Level 3 Assets:							
Venture capital investments	\$ 5,333	\$ 837	\$ -	\$ (893)	\$ -	\$ 5,277	\$ (55)
Other Private Equity	24,678	3,608	3,773	(5,285)	-	26,774	2,096
Hedge Funds	38,874	2,471	23,115	(6,646)	-	57,814	18,939
Real estate	30,116	11,734	-	(10,500)	-	31,350	1,234
Interest in perpetual trust	2,409	56	-	-	-	2,465	56
Total	\$ 101,410	\$ 18,706	\$ 26,888	\$ (23,324)	\$ -	\$ 123,680	\$ 22,270

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

The gains and losses (realized and unrealized) reported above for investments for the years ended April 30, 2016 and 2015 are included in Investment Return in Excess of Amounts Designated for Current Operations on the Statement of Activities. The gains and losses for contributions receivable are included in Changes in the Value of Split Interest Agreements in the Statement of Activities.

As a practical expedient, the University is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University's investments in private equity, real assets and certain hedge funds in the absolute return portfolio are fair valued based on the most current NAV.

The University performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The University has assessed factors including, but not limited to, managers' compliance with *Fair Value Measurement* standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

The guidance also requires additional disclosures to enable user of the financial statements to understand the nature and risk of the University's investments. Furthermore, investments which can be redeemed at NAV by the University on the measurement date or in ninety days or less are classified as Level 2. Investments which cannot be redeemed on the measurement date or in ninety days or less are classified as Level 3. The guidance did not materially affect the University's consolidated financial statements.

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

The NAV and redemption information for these investments as of April 30, 2016 and 2015 is as follows (in thousands):

Category	2016 Fair Value	Unfunded Commitments	2015 Fair Value	Redemption Frequency	Redemption Notice Period
Hedge Funds					
Relative Value	\$ 25,114	\$ -	\$ 26,294	Annually	95 days
Diversifying Fund	14,757	-	14,389	Quarterly	95 days
Global Equity	12,284	-	17,131	Quarterly	95 days
Private Equity					
Venture Capital	4,557	310	5,277	N/A	
Corporate Finance	18,533	4,004	19,874	N/A	
Real Estate	7,076	3,773	4,588	N/A	
Natural Resources	2,438	1,583	2,312	N/A	
Total Included in Level 3	<u>\$ 84,759</u>	<u>\$ 9,670</u>	<u>\$ 89,865</u>		
Hedge Funds					
Domestic Equity	\$ 23,847	\$ -	\$ 28,974	Weekly	5 days
Emerging Mkts Equity	1,796	-	4,498	Semi-Monthly	2 days
Emerging Mkts Equity	2,194	-	3,824	Monthly	15 - 30 days
Commodities	3,880	-	4,650	Monthly	5 days
Natural Resources	11,865	-	10,938	Daily	2 days
Fixed Income					
Mutual Funds	23,176	-	22,648	Daily	2 days
Commingled fund of funds	10,987	-	10,431	Monthly	5 days
Equity					
Mutual Funds	22,293	-	52,264	Daily	2 days
Commingled fund of funds	12,447	-	6,626	Weekly	5 days
Total Included in Level 2	<u>\$ 112,485</u>	<u>\$ -</u>	<u>\$ 144,853</u>		

The University has made commitments to various private equity and limited partnerships. The University expects these funds to be called over the next 3 to 6 years. Liquidity is expected to be received in the next 7 to 9 years.

Required Net Asset Transfers

Required net asset transfers represent amounts that change net asset classification due to meeting the dollar threshold to qualify as an endowment, liquidation of annuities after the death of the donor, or a change in the donor's restriction on a gift.

Concentration of Credit Risk

The University maintains cash balances with financial institutions that exceed the federally insured amount. The University has not suffered any credit losses due to this risk and believes that the risk of failure of these institutions is very low.

The University places its cash and temporary cash investments in money market mutual funds and bank overnight deposits with various financial institutions. Cash and cash equivalent balances are in excess of the FDIC insurance limit. The University has not experienced any losses on its cash and cash equivalents. The University has also invested its excess cash in a diversified, short-term, investment grade, tax-exempt bond fund that is classified under Money Market Funds and Temporary Investments.

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

Tuition receivables are not collateralized; however, credit risk is minimized as a result of the diverse nature of the University's student base. The University establishes an allowance for doubtful tuition accounts based upon historical trends and other information.

New Accounting Pronouncements

In July 2015, the FASB issued ASU 2015-07: Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) ("ASU 2015-07") to ensure that all investments categorized in the fair value hierarchy are classified using a consistent approach and to eliminate any diversity in the practice related to how certain investments measured at net asset value with redemption dates in the future are categorized within the fair value hierarchy. The amendments in ASU 2015-7 are effective for fiscal years beginning after December 15, 2015 with earlier application permitted and should be applied retrospectively to all periods presented. Management is currently evaluating the impact of ASU 2015-7 on the University's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01: Financial Instruments – Overall (Subtopic 825-10) ("ASU 2016-01") which changes the classification and accounting of investments of certain equity securities and the fair value presentation and disclosure requirement of certain financial instruments. The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017 with earlier application permitted and should be applied retrospectively to all periods presented. Management is currently evaluating the impact of ASU 2016-01 on the University's consolidated financial statements.

The University adopted ASU 2015-03: Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03") which required debt issuance costs to be presented in the balance sheet as a direct deduction to the carrying amount of the associated debt. As a result of the implementation of ASU 2015-03, a reclassification was made between Deferred charges and other assets and Indebtedness of approximately \$1,990,000 for the fiscal year ended April 30, 2015.

3. Contributions Receivable

Contributions receivable at April 30, 2016 and 2015 are summarized as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 10,510	\$ 2,614
One year to five years	5,150	331
Over five years	9,473	9,439
	<u>25,133</u>	<u>12,384</u>
Less unamortized discount on contributions receivable	<u>(981)</u>	<u>(805)</u>
Net present value of contributions receivable	24,152	11,579
Less allowance for uncollectible contributions	<u>(2,004)</u>	<u>(1,149)</u>
Contributions receivable, net	<u>\$ 22,148</u>	<u>\$ 10,430</u>

The University discounted contributions receivable using rates ranging between 2.8% and 3.8% and 2.2% and 3.8% for the years ended April 30, 2016 and 2015, respectively. The University has an outstanding conditional pledge totaling \$3,000,000 and \$1,000,000 outstanding at April 30, 2016 and April 30, 2015. For the remaining balance, the condition specifies that certain criteria be met and information be provided back to the donor before the next installment can be received.

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

The University is a named beneficiary of trusts administered by financial institutions. The estimated net present value of the expected cash flows, which approximates the University's value of its interest in the trusts, was \$8,645,000 and \$8,650,000 at April 30, 2016 and 2015, respectively. Changes in the University's interest in the value of the trust assets are recognized as temporarily restricted changes in value of split interest agreements.

4. Investments

Investments by type at April 30, 2016 and 2015 are as follows (in thousands):

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money market funds and temporary investments	\$ 5,841	\$ 5,841	\$ 9,532	\$ 9,532
Equity investments	123,444	149,819	106,028	139,283
Fixed income investments	50,235	50,785	50,840	50,673
Private equity and limited partnerships	28,547	32,604	27,843	32,051
Hedge funds	91,254	95,737	98,652	110,698
Real estate	142	32,202	140	31,403
	<u>\$ 299,463</u>	<u>\$ 366,988</u>	<u>\$ 293,035</u>	<u>\$ 373,640</u>

Deposits with Bond Trustees

The University's deposits with bond trustees are invested in money market investments for planned construction projects. The fair value of these securities was approximately \$9,600 and \$1,137,000 at April 30, 2016 and 2015, respectively. The investment income on these deposits for the years ended April 30, 2016 and 2015 consisted of \$131 and \$143 of dividend and interest income, respectively, and no unrealized and realized gains.

Investment Income

Total net investment gain for the years ended April 30, 2016 and 2015 consists of the following (in thousands):

	2016	2015
Interest and dividends	\$ 3,890	\$ 3,427
Realized gains, net	7,638	23,778
Unrealized (losses) gains, net	(12,905)	5,742
Investment management expenses	(1,233)	(1,046)
Total (loss) gain from investments	(2,610)	31,901
Earnings on deposits with bond trustees	-	1
Total net investment (loss) gain	<u>\$ (2,610)</u>	<u>\$ 31,902</u>
Operating - investment return designated for operations	10,476	10,770
Non-operating - investment return in (deficit) excess of amounts designated for operations	(13,086)	21,132
Total net investment (loss) gain	<u>\$ (2,610)</u>	<u>\$ 31,902</u>

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The Catholic University of America and Affiliates

Notes to Consolidated Financial Statements

Years ended April 30, 2016 and 2015

5. Endowment

The University's endowment consists of approximately 616 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an average rate of return of more than 5% as measured over rolling 5 year periods within risk levels defined by the Trustees. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The University has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment. In March 2015, the Board of Trustees revised the annual distribution from 5 percent to 4.5 percent to be used in prospective years commencing in the year ending April 30, 2016.

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and accounting standards related to net asset classification guides endowment reporting. The Board of Trustees interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) income accumulations, if specified by the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The University allocates income annually to each fund according to a Board-approved spending rate. The University considers the following factors in setting this rate:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

The endowment consisted of the following as of April 30, 2016 and 2015 (in thousands):

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 48,928	\$ 88,811	\$ 137,739
Board-designated endowment funds	69,054	-	-	\$ 69,054
Total endowment funds	\$ 69,054	\$ 48,928	\$ 88,811	\$ 206,793

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 59,918	\$ 86,907	\$ 146,825
Board-designated endowment funds	72,985	-	-	72,985
Total endowment funds	\$ 72,985	\$ 59,918	\$ 86,907	\$ 219,810

For the years ended April 30, 2016 and 2015, the University had the following endowment-related activities (in thousands):

	2016			2015		
	Board-Designated Endowment Funds	Donor Restricted Endowment Funds	Total	Board-Designated Endowment Funds	Donor Restricted Endowment Funds	Total
Investment return						
Investment income	\$ 901	\$ 2,554	\$ 3,455	\$ 797	\$ 2,178	\$ 2,975
Net (depreciation) appreciation	(1,809)	(4,959)	(6,768)	5,642	12,894	18,536
Total investment return	(908)	(2,405)	(3,313)	6,439	15,072	21,511
Contributions to endowment	8	783	791	7	1,822	1,829
Amounts appropriated for expenditures	(3,031)	(8,560)	(11,591)	(3,196)	(8,533)	(11,729)
Annuity payments	-	(103)	(103)	-	(112)	(112)
Transfers	-	1,199	1,199	-	59	59
Total change in endowment funds	\$ (3,931)	\$ (9,086)	\$ (13,017)	\$ 3,250	\$ 8,308	\$ 11,558

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with accounting guidance for not-for-profit organizations, deficiencies of this nature that are reported in unrestricted net assets were \$33 and \$0 as of April 30, 2016 and 2015, respectively.

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

By net asset classification, the University had the following endowment-related activities for the years ended April 30, 2016 and 2015 (in thousands):

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 72,985	\$ 59,918	\$ 86,907	\$ 219,810
Investment return				
Investment income	901	2,554	-	3,455
Net depreciation	(1,809)	(4,959)	-	(6,768)
Total investment return	(908)	(2,405)	-	(3,313)
Contributions to endowment	8	78	705	791
Amounts appropriated for expenditures	(3,031)	(8,560)	-	(11,591)
Annuity payments	-	(103)	-	(103)
Transfers	-	-	1,199	1,199
Endowment net assets, end of year	\$ 69,054	\$ 48,928	\$ 88,811	\$ 206,793
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 69,735	\$ 53,416	\$ 85,101	\$ 208,252
Investment return				
Investment income	797	2,178	-	2,975
Net appreciation	5,642	12,894	-	18,536
Total investment return	6,439	15,072	-	21,511
Contributions to endowment	7	75	1,747	1,829
Amounts appropriated for expenditures	(3,196)	(8,533)	-	(11,729)
Annuity payments	-	(112)	-	(112)
Transfers	-	-	59	59
Endowment net assets, end of year	\$ 72,985	\$ 59,918	\$ 86,907	\$ 219,810

6. Trusts

Split Interest Agreements

The University has assets of certain charitable remainder trusts included in its investment portfolio. The trust agreements stipulate annuity payments to the beneficiaries based on agreed-upon rates. The liabilities associated with these annuity payments are recorded as split interest agreements in the

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

consolidated statements of financial position. The University discounted the split interest liabilities using rates ranging between 1.5% and 10.0% for the years ended April 30, 2016 and 2015. Changes in the values of the trusts and liabilities are recorded as changes in the value of split interest agreements in the consolidated statements of activities.

Perpetual Trusts

The University is named as a beneficiary of four perpetual trusts administered by financial institutions. The estimated present value of the expected cash flows, which approximates the University's value of its interest in the trusts, was \$2,273,000 and \$2,465,000 at April 30, 2016 and 2015, respectively. The trusts are recognized as assets and as permanently restricted net assets in the consolidated financial statements. The University's share of the change in the fair value of the trusts' assets is recognized as permanently restricted investment income. Interest and dividends distributed from the trusts are recorded as unrestricted or temporarily restricted investment income based on donor stipulations.

7. Property and Equipment

Property and equipment at April 30, 2016 and 2015 are summarized as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Land	\$ 23,525	\$ 23,525
Buildings and building improvements	302,038	295,333
Building retirement costs	2,684	2,684
Leasehold improvements	5,674	1,454
Construction work in process	-	423
Furniture, equipment, computer systems, and library books	<u>80,790</u>	<u>78,500</u>
	414,711	401,919
Accumulated depreciation	<u>(225,450)</u>	<u>(213,933)</u>
Property and equipment, net	<u>\$ 189,261</u>	<u>\$ 187,986</u>

The University has no outstanding liability for equipment held under capital leases as of April 30, 2016 and 2015.

In the year ended April 30, 2012, the University leased a portion of its land to an outside party. The land is recorded at fair value and is included in investments. The fair value of the leased land is \$32,150,000 and \$31,350,000 at April 30, 2016 and 2015.

In accordance with accounting standards for costs of computer software developed or obtained for internal use, the University has capitalized certain internal labor costs for time spent on the application development stages of these projects. There were no such costs for the year ended April 30, 2016 and 2015.

In accordance with conditional asset retirement obligation accounting standards, as of April 30, 2016 and 2015 the University has capitalized \$2,684,000 of asset retirement costs with accumulated depreciation balances of \$2,463,000 and \$2,446,000, respectively. The asset retirement obligation as of April 30, 2016 and 2015 is \$8,405,000 and \$8,012,000, respectively, and is recorded as a liability on the statement of financial position. The University's asset retirement obligations are primarily associated with the cost and removal of asbestos, lead paint and asset decommissioning.

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The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

The activity for the asset retirement obligations for the years ended April 30, 2016 and 2015 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Asset retirement obligations, beginning of year	\$ 8,012	\$ 7,704
Change in estimated cash flows	-	-
Abatement/decrease in liabilities	-	(64)
Accretion expense	<u>393</u>	<u>372</u>
Asset retirement obligations, end of year	<u>\$ 8,405</u>	<u>\$ 8,012</u>

8. Indebtedness

Indebtedness at April 30, 2016 and 2015 consists of the following (in thousands):

	<u>Scheduled Maturity</u>	<u>Ending Interest Rate</u>	<u>2016 Amount Outstanding</u>	<u>2015 Amount Outstanding</u>
Tax-Exempt Bonds:				
2015 Series District of Columbia Revenue Bonds	Oct. 1, 2037	Fixed 2.78%	\$ 34,965	\$ -
2010 Series District of Columbia Revenue Bonds	Oct. 1, 2034	Fixed 5.0%	29,475	31,160
2007 Series District of Columbia Revenue Bonds	Oct. 1, 2037	Fixed 5.0%	28,555	63,305
Total bonds payable			<u>92,995</u>	<u>94,465</u>
Non-recourse Debt:				
U.S. Department of Education-McMahon Hall	Aug. 1, 2021	Fixed 5.5%	963	1,109
U.S. Department of Education-Centennial Village	Oct. 1, 2020	Fixed 3.0%	587	743
Total notes payable			<u>1,550</u>	<u>1,852</u>
Unamortized Bond Premium, net			1,553	3,508
Unamortized Issuance Costs			<u>(1,894)</u>	<u>(1,990)</u>
Total indebtedness			<u>\$ 94,204</u>	<u>\$ 97,835</u>

The foregoing bonds and notes as of April 30, 2016 are payable as follows (in thousands):

2017	\$ 3,716
2018	3,924
2019	4,118
2020	4,204
2021	4,112
Thereafter	<u>74,471</u>
	94,545
Unamortized Bond premium and Issuance costs, net	<u>341</u>
Total indebtedness	<u>\$ 94,204</u>

Continued

The Catholic University of America and Affiliates

Notes to Consolidated Financial Statements

Years ended April 30, 2016 and 2015

Interest expense for the years ended April 30, 2016 and 2015 was approximately \$3,951,000 and \$4,594,000, respectively. There was no capitalized interest for the years ended April 30, 2016 and 2015. Management believes that the University was in compliance with debt covenants as of April 30, 2016 and 2015. Cash paid during the year for interest was approximately \$4,085,000 and \$4,772,000 for the year ended April 30, 2016 and 2015, respectively.

Series 2015 Bonds

In December 2015, the University issued \$35,065,000 District of Columbia Refunding Revenue Bonds Series 2015 for the purpose of refunding a portion of the outstanding District of Columbia Revenue Bonds, Series 2007.

Covenants of the Series 2015 Bonds loan agreement require the University to maintain liquid unrestricted net assets with a value which is equal to at least 80% of the outstanding principal amount of all long term indebtedness which is on parity with Series 2015 Bonds.

Series 2010 Bonds

In August 2010, the University issued \$38,010,000 District of Columbia Refunding Revenue Bonds Series 2010 for the purpose of refunding the outstanding District of Columbia Revenue Bonds, Series 1999 and The Catholic University of America Taxable Variable Rate Demand Bonds Series 2004.

Covenants of the Series 2010 Bonds loan agreements require the University to maintain liquid unrestricted net assets with a value which is equal to at least 80% of the outstanding principal amount of all long term indebtedness which is on parity with Series 2010 Bonds.

Series 2007 Bonds

In June 2007, the University issued \$72,710,000 District of Columbia Revenue Bonds Series 2007 for the purpose of (i) financing the costs of construction, equipping and furnishing a student residence hall (ii) advance refunding certain bonds from the District of Columbia Revenue Bonds Series 1999; (iii) financing the costs of relocation of a maintenance building; and (iv) other projects. In December 2015, \$33,380,000 of the District of Columbia Revenue Bonds Series 2007 was refunded and extinguished.

Covenants of the Series 2007 Bonds loan agreement require the University to maintain liquid unrestricted net assets with a value which is equal to at least 80% of the outstanding principal amount of all long term indebtedness which is on parity with Series 2007 Bonds.

Lines of Credit

As of April 30, 2016 and 2015, the University had one line of credit with SunTrust Bank, totaling \$9 million. At April 30, 2016 and 2015, none of the \$9 million line of credit is drawn, and all is therefore available to the University for further financing. Draws on the \$9 million line of credit are payable in monthly installments of principal and interest. The interest rate on the line of credit is based on LIBOR interest rate plus 1.25%. The line of credit matures on October 31, 2016.

Continued

The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

9. Undesignated and Internally Designated Net Assets

Undesignated and internally designated net assets at April 30, 2016 and 2015 are comprised of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Undesignated	\$ 58,766	\$ 57,397
Internally designated	<u>50,234</u>	<u>55,090</u>
	<u>\$ 109,000</u>	<u>\$ 112,487</u>

10. Scholarship Allowances

The University awarded \$84,966,000 and \$81,702,000 in merit and need based scholarships and tuition waivers to its students for the years ended April 30, 2016 and 2015, respectively. Student tuition and fees revenue are reported net of scholarships in the consolidated statements of activities.

11. Employee Benefit Plans

Eligible employees of the University may participate in a contributory pension and retirement plan administered by the Teachers Insurance and Annuity Association and College Retirement Equities Fund. Under this plan, contributions are fully vested and are transferable by the employees to other covered employer plans. Participating employees can contribute a percentage of their base salary not to exceed the maximum amount allowed by IRC Section 415. After employees becomes eligible, they cannot make contributions less than 2.5% of their salary. The University contributes 5.0% for the employees who do not make any contributions to the plan; 7.5% for employees contributing 2.5%, and 10.0% for those contributing 5.0%. The University's contribution to this plan was \$7,400,000 and \$7,443,000 for the years ended April 30, 2016 and 2015, respectively.

Employees who retire from the University are also eligible for a life insurance benefit of \$5,500. The net present value of the liability for this benefit is \$2,737,000 and \$2,733,000 as of April 30, 2016 and 2015, respectively. This benefit program is unfunded.

12. Commitments

As of April 30, 2016, the University had entered into several construction agreements. Under these agreements, the University is obligated for approximately \$16,210,000, of which \$13,299,000 has been incurred at April 30, 2016.

The University has outstanding commitments to invest approximately \$9,670,000 in limited partnerships as of April 30, 2016.

On April 4, 2013 the University entered into a Letter of Credit with a governmental regulatory agency as required by that agency. The Letter of Credit for \$450,000 will be funded to a trust account if the University ever decides to decommission certain assets. As of April 30, 2016, the University has no plans to decommission those assets.

Continued

The Catholic University of America and Affiliates
Notes to Consolidated Financial Statements
Years ended April 30, 2016 and 2015

The University leases certain office space and equipment under long-term leases, the last of which expires in fiscal year 2021. Future minimum rental payments under operating leases having initial or remaining lease terms in excess of one year are (in thousands):

Year	
2017	\$ 1,393
2018	933
2019	943
2020	957
2021 and thereafter	<u>2,137</u>
	<u>\$ 6,363</u>

The University has leased out portions of its South Campus property under long-term leases. The lease revenue escalates based upon the Consumer Price Index each year. The estimated future minimum rental receipts for the next five years are (in thousands):

Year	
2017	\$ 1,271
2018	1,278
2019	1,284
2020	1,290
2021	1,297
2022 and thereafter	<u>147,677</u>
	<u>\$ 154,097</u>

There are no outstanding capital lease liabilities as of April 30, 2016. Rent expense was \$1,831,000 and \$1,551,000 for the years ended April 30, 2016 and 2015, respectively.

13. Contingencies

The University is a party to litigation arising out of the normal conduct of its operations. In the opinion of the University's administration, the ultimate resolution of these matters will not have a materially adverse effect upon the University's financial position, change in net assets or cash flows.

The University receives a portion of its revenue from government grants and contracts, all of which are subject to audit. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amounts received in excess of allowable costs. Management is of the opinion that no material unrecorded liability will result from such audits.

14. Subsequent Events

In preparing the financial statements, the University has evaluated events and transactions for potential recognition or disclosure through September 14, 2016, the date the financial statements were issued. No matters requiring recognition or disclosure were noted.

SUPPLEMENTAL SCHEDULES

The Catholic University of America and Affiliates
Consolidating Statements of Financial Position
April 30, 2016

<i>(in thousands)</i>	CUA Foundation	Farone Foundation	Other University Activity	Total
Assets				
Cash and cash equivalents	\$ 38	\$ 252	\$ 25,904	\$ 26,194
Due from the University	-	-	-	-
Accounts receivable:				
Student fees and other, net of allowance for doubtful accounts	-	-	9,762	9,762
U.S. government and other agencies, net of allowance for doubtful accounts	-	-	5,625	5,625
Notes and student loans receivable, net of allowance for doubtful accounts	-	-	7,574	7,574
Contributions receivable, net of allowance for doubtful accounts	50	-	22,098	22,148
Investments	-	32,016	334,972	366,988
Deposits with bond trustee	-	-	10	10
Deferred charges and other assets	-	-	5,761	5,761
Property and equipment, net	-	-	189,261	189,261
Interest in perpetual trusts	-	-	2,273	2,273
Total assets	<u>\$ 88</u>	<u>\$ 32,268</u>	<u>\$ 603,240</u>	<u>\$ 635,596</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ -	\$ 1	\$ 25,531	\$ 25,532
Due to the University	41	601	(642)	-
Deferred revenues, student deposits and other liabilities	-	-	9,029	9,029
Refundable advances from the U.S. government	-	-	6,886	6,886
Split-interest agreements	-	-	1,212	1,212
Asset retirement obligations	-	-	8,405	8,405
Indebtedness	-	-	94,204	94,204
Total liabilities	<u>41</u>	<u>602</u>	<u>144,625</u>	<u>145,268</u>
Net assets:				
Unrestricted				
Undesignated and internally designated	-	-	109,000	109,000
Designated funds functioning as endowment	-	-	73,305	73,305
Farone Foundation	-	31,666	-	31,666
Net investment in property and equipment	-	-	86,321	86,321
	<u>-</u>	<u>31,666</u>	<u>268,626</u>	<u>300,292</u>
Temporarily restricted				
Split interest agreements	-	-	10,285	10,285
CUA Foundation	47	-	-	47
Property and equipment	-	-	8,631	8,631
Department gifts and scholarships	-	-	76,069	76,069
	<u>47</u>	<u>-</u>	<u>94,985</u>	<u>95,032</u>
Permanently restricted				
Student loans	-	-	2,446	2,446
Endowment	-	-	89,382	89,382
Split interest agreements	-	-	3,176	3,176
	<u>-</u>	<u>-</u>	<u>95,004</u>	<u>95,004</u>
Total net assets	<u>47</u>	<u>31,666</u>	<u>458,615</u>	<u>490,328</u>
Total liabilities and net assets	<u>\$ 88</u>	<u>\$ 32,268</u>	<u>\$ 603,240</u>	<u>\$ 635,596</u>

The Catholic University of America and Affiliates
Consolidating Statements of Activities
Year Ended April 30, 2016

	CUA Foundation			Farone Foundation		Other University Activity				Consolidated Total
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<i>(in thousands)</i>										
Operating revenues and support:										
Student tuition and fees, net	\$ -	\$ -	\$ -	\$ (598)	\$ (598)	\$ 131,153	\$ -	\$ -	\$ 131,153	\$ 130,555
Federal and private grants and contracts	-	-	-	-	-	25,385	-	-	25,385	25,385
Contributions	-	80	80	-	-	13,301	15,675	-	28,976	29,056
Investment return designated for current operations	-	-	-	582	582	6,742	3,152	-	9,894	10,476
Sales and services of departments	-	-	-	-	-	1,391	-	-	1,391	1,391
Sales and services of auxiliary enterprises	-	-	-	-	-	32,571	-	-	32,571	32,571
Net assets released from restrictions	41	(41)	-	-	-	8,321	(8,321)	-	-	-
Other operating revenues	-	-	-	-	-	2,899	-	-	2,899	2,899
Total operating revenues and support	41	39	80	(16)	(16)	221,763	10,506	-	232,269	232,333
Operating expenses:										
Educational and general:										
Instruction and departmental research	39	-	39	-	-	97,777	-	-	97,777	97,816
Sponsored research	-	-	-	-	-	18,734	-	-	18,734	18,734
Public service	-	-	-	-	-	2,622	-	-	2,622	2,622
Libraries	-	-	-	-	-	12,260	-	-	12,260	12,260
Student services	-	-	-	-	-	26,143	-	-	26,143	26,143
Institutional support	2	-	2	3	3	34,137	-	-	34,137	34,142
Total educational and general expenses	41	-	41	3	3	191,673	-	-	191,673	191,717
Auxiliary enterprises	-	-	-	-	-	29,581	-	-	29,581	29,581
Total operating expenses	41	-	41	3	3	221,254	-	-	221,254	221,298
Change in net assets from operations	-	39	39	(19)	(19)	509	10,506	-	11,015	11,035
Nonoperating activities:										
Contributions	-	-	-	-	-	502	3,829	791	5,122	5,122
Investment return in excess of amounts designated for current operations	-	-	-	1,087	1,087	(2,997)	(11,207)	31	(14,173)	(13,086)
Changes in the value of split-interest agreements	-	-	-	-	-	1	155	(192)	(36)	(36)
Required net asset transfers	-	-	-	-	-	(800)	(400)	1,200	-	-
Loss on sale of property	-	-	-	-	-	(360)	-	-	(360)	(360)
Loss on debt defeasance	-	-	-	-	-	(952)	-	-	(952)	(952)
Other	-	-	-	-	-	336	-	-	336	336
Change in net assets from nonoperating activities	-	-	-	1,087	1,087	(4,270)	(7,623)	1,830	(10,063)	(8,976)
Increase in net assets	-	39	39	1,068	1,068	(3,761)	2,883	1,830	952	2,059
Net assets at beginning of year		8	8	30,598	30,598	272,387	92,102	93,174	457,663	488,269
Net assets at end of year	\$ -	\$ 47	\$ 47	\$ 31,666	\$ 31,666	\$ 268,626	\$ 94,985	\$ 95,004	\$ 458,615	\$ 490,328